

MICHIGAN COMMUNITY COLLEGE RISK MANAGEMENT AUTHORITY

TABLE OF CONTENTS

JUNE 30, 2005

SECTION I - INTRODUCTION

- I-A Letter of Transmittal
- I-B Organizational Chart

SECTION II - AUDITED FINANCIAL STATEMENTS

SECTION III - SUPPORTING FINANCIAL DATA

- III-A Composition of Investments
- III-B Reinsurance Receivables

SECTION IV - STATISTICAL DATA

- IV-A Comparative Statement of Revenues, Expenses and Fund Balances
- IV-B Multiple Year Comparative Membership Statistics
- IV-C Reinsurer Information

SECTION V - GLOSSARY

**SECTION I**

**INTRODUCTION**



October 21, 2005

Board of Directors  
Michigan Community College Risk Management Authority  
Livonia, Michigan 48154

Gentlemen:

Michigan Community College Risk Management Authority (MCCRMA) is a public self-insurance pool that provides property and liability coverages to its participating Members. Membership is limited to community colleges as defined by Michigan Statute.

MCCRMA was formed in 1985 under the authority granted by Public Act, 1982, No. 138 which authorized local units of government to contract jointly to undertake cooperative action to provide risk management and self-insurance coverages.

MCCRMA is financed by contributions from its member community colleges. Contributions paid by Members are based upon underwriting criteria and guidelines approved by the Board of Directors. Contributions are calculated by applying uniform base rates to the various loss exposures and using experience modification factors to set pricing for unique risk characteristics and incurred loss experience. Net operating expenditures, number of employees, size and complexity of operations, loss experience, loss control efforts, and other relevant risk-related criteria are factors.

MCCRMA is an affiliated member of Michigan Municipal Risk Management Authority (MMRMA) and as such purchases reinsurance from MMRMA as well as participating with them in reinsurance treaties with other reinsurers.

MCCRMA Members each maintain a minimum amount of funds, in an amount established by the Board of Directors, on deposit with MCCRMA. Members' Funds on Deposit are used to pay claims and allocated loss adjustment expenses that are an obligation of the Members, to purchase reinsurance and services, such as underwriting, claims administration, loss prevention and to pay for MCCRMA administrative expenses.

Potential members, who meet membership guidelines, are accepted into MCCRMA upon recommendation of the risk manager and with the approval of the Board of Directors. Only Michigan community college corporations are eligible to apply for membership.

#### Financial Management

The 2005 Financial Report reflects MCCRMA'S twentieth year of operation. The report has been prepared by Quenneville & Associates, P.L.L.C. (Q & A),

the accounting firm responsible for performing all MCCRMA accounting and treasury functions. The financial statements have been prepared in conformity with generally accepted accounting principles and necessarily include amounts based upon reliable estimates and judgments. MCCRMA books are recorded on a full accrual basis also in accordance with generally accepted accounting principles. A summary of significant accounting policies is discussed in the notes to the financial statements found in the financial section.

Q & A accounts for the Members' General and Stop-Loss funds. In fulfilling their responsibilities, Q & A has developed a reliable system of internal controls. This system is designed to provide reasonable assurance that assets are effectively safeguarded and that transactions are executed and properly recorded with appropriate authorizations.

Plante & Moran, LLP (P & M), independent public accountants, provides an objective, independent audit of the fairness of MCCRMA's financial position and results of operations. P & M's examination was conducted in accordance with generally accepted auditing standards. Those standards require that P & M plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates by management, as well as evaluating the overall financial statement presentation.

MCCRMA purchases property and casualty reinsurance coverages for amounts in excess of Member deductibles. The recovery of any receivables from reinsurers has been guaranteed by the MMRMA. MCCRMA itself carries no risk and therefore has no reserves.

In addition, Tillinghast, a Towers Perrin Company, conducts independent actuarial analyses to confirm that there are no outstanding claim reserves. Their report is also submitted to the Board of Directors.

#### The Annual Report

Part I--Introductory Section: Contains information regarding MCCRMA's management structure, executive officers, and the financial reporting requirements set forth in Board directives. This information provides the basis for understanding of the Comprehensive Annual Financial Report.

Part II--Financial Statements: Includes all financial statements prepared from MCCRMA's books and records for the nineteenth year of operation. The Financial Section has been examined by MCCRMA's independent public accountants, Plante & Moran, LLP, as required by the Board of Directors. A copy of P & M's report dated July 28, 2005, is included in the Financial Section.

Part III--Supporting Financial Data: Contains certain data pertaining to investments that further support and define the data presented in the Financial Section. This data will be of general interest to the Members and will be used for future decision making purposes.

Part IV--Statistical Data: Contains certain data pertaining to cumulative claim activity, loss development, comparative financial information, and demographic data which may be of general interest to the Members. It is expected that this data base will be expanded in future years for historical and comparative purposes. The independent actuarial report prepared by Tillinghast is incorporated by reference in this report.

#### Financial Highlights

Total member contributions to MCCRMA for the year ended June 30, 2005, were \$4,458,000, of which \$3,351,000, or 75%, was used to pay for outside reinsurance charges, claims management, underwriting, risk management, and other administrative expenses; \$402,000, or 9%, was used to fund an internal Member Stop-Loss Fund; and \$705,000, or 16%, was placed in the Member Funds to cover Member deductibles and retentions under the program.

MCCRMA earned investment income of \$308,000, of which \$244,000 was credited to MCCRMA's General Fund and \$64,000 credited to the Members' Stop-Loss Fund.

Member contributions and investment income totaled \$4,766,000, of which \$4,450,000, or 93%, was directly allocated to cover claim-related activity, and \$316,000, or 7%, was for underwriting, risk management, sales, and administrative costs.

MCCRMA has entered into reinsurance agreements with MMRMA and other outside reinsurers providing for loss coverage in excess of the amounts to be retained by MCCRMA Members. This MCCRMA program provides up to \$15 million of occurrence-based casualty coverage for each incident. An Individual Member's maximum retention with outside reinsurers on general liability and auto liability was \$100,000 for fiscal 2004. The limits on auto physical damage are \$10,000 per vehicle and per occurrence. The retention limits for property coverage are subject to a \$1,000 deductible with the first \$100,000 being the responsibility of the Member.

In addition, MCCRMA has an internal Stop-Loss fund which further reduces member deductibles. Losses paid, net of reinsurance recovery, generally exceeding \$15,000 per occurrence or \$45,000 in the aggregate, on a year-to-year basis, are paid entirely from the Stop-Loss fund.

Board of Directors  
October 21, 2005  
Page Four

Cost Containment

During Fiscal Year 2005, MCCRMA provided several training sessions specifically designed to meet the needs of the Members including the areas of recreational and health facilities, employment matters and fire activities.

MCCRMA also provided the membership with hundreds of hours of risk management services specifically designed to meet their individual risk management needs.

Concluding Comments

The overall financial condition of MCCRMA is excellent after the nineteenth year of operation. MCCRMA has been able to afford its Members significant cost savings, as well as providing superior coverages and service. Since its inception on July 1, 1985, MCCRMA has become an indispensable alternative to commercial insurance for Michigan community colleges.

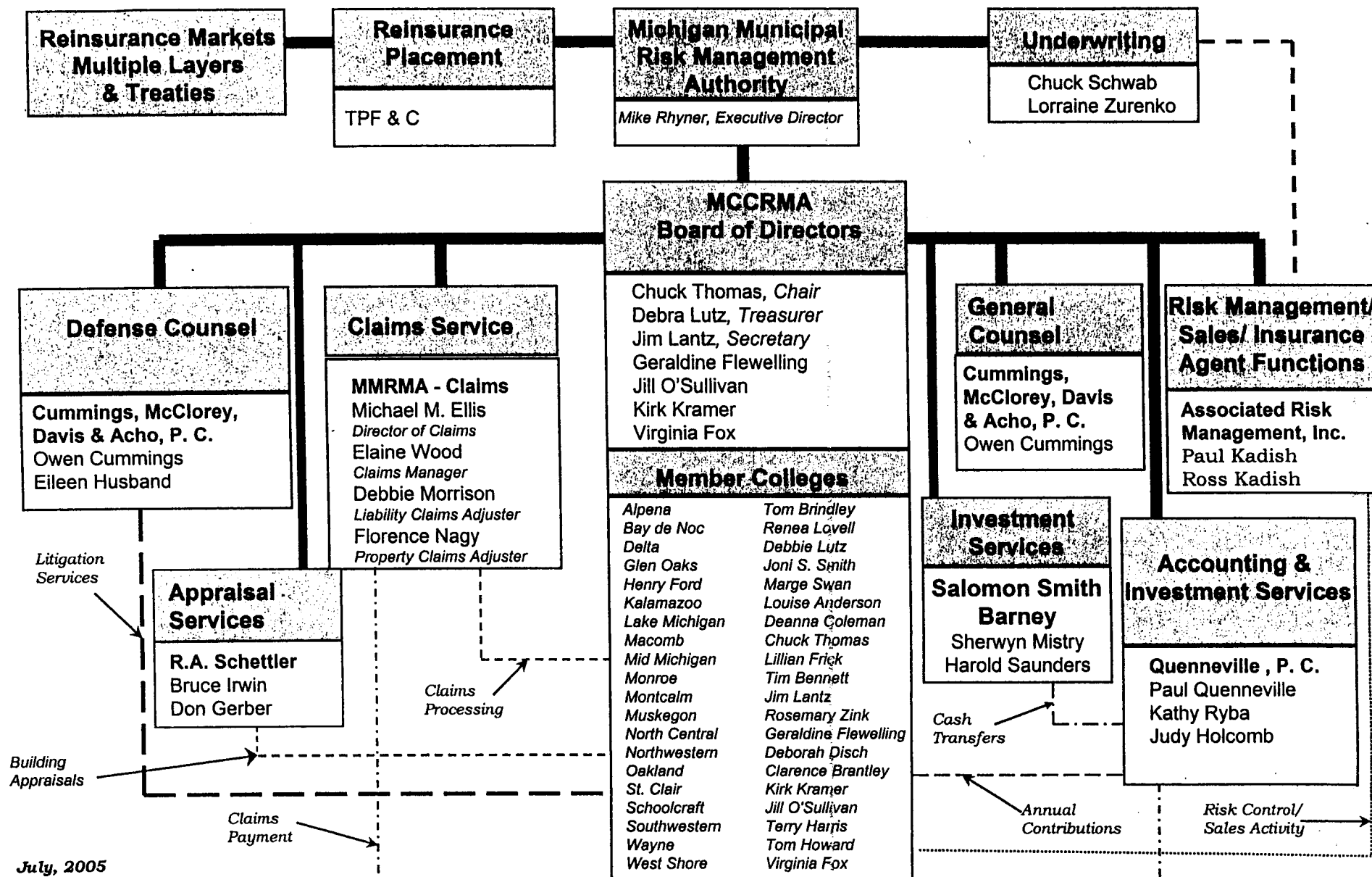
Finally, the preparation of the Comprehensive Annual Financial Report was a collaborative effort on the part of many people at MCCRMA. We expect no significant changes in the immediate future.

Respectfully submitted,



Paul G. Quenneville CPA  
Financial Advisor

# Michigan Community College Risk Management Authority Organization Chart



**SECTION II**

**FINANCIAL STATEMENTS**



**Michigan Community College  
Risk Management Authority**

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**Financial Report  
with Supplemental Information  
June 30, 2005**

# **Michigan Community College Risk Management Authority**

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## **Contents**

|  |            |
|--|------------|
| <b>Report Letter</b>   | <b>1</b>   |
| <b>Management's Discussion and Analysis</b>                  | <b>2-5</b> |
| <b>Basic Financial Statements</b>                            |            |
| Statement of Net Assets                                      | 6          |
| Statement of Revenue, Expenses, and Changes in Net Assets    | 7          |
| Statement of Cash Flows                                      | 8          |
| Notes to Financial Statements                                | 9-16       |
| <b>Other Supplemental Information</b>                        | <b>17</b>  |
| Schedule of Changes in Members' Funds on Deposit - By Member | 18         |



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## Independent Auditor's Report

To the Board of Directors  
Michigan Community College  
Risk Management Authority

We have audited the accompanying statement of net assets of the Michigan Community College Risk Management Authority as of June 30, 2005 and the related statements of revenue, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Michigan Community College Risk Management Authority at June 30, 2005 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Michigan Community College Risk Management Authority's basic financial statements. The accompanying other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

July 28, 2005

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# Michigan Community College Risk Management Authority

## Management's Discussion and Analysis

As management of the Michigan Community College Risk Management Authority (the "Authority"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the audited financial statements, which immediately follow this section.

### Using this Annual Report

The Authority administers a risk management fund that provides members with loss protection for general and auto liability, motor vehicle physical damage, and property. The Authority functions primarily as a claims servicer for members and as a purchasing agent for the acquisition of reinsurance. This annual report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Authority. This is followed by the statement of cash flows, which presents detailed information about the changes in the Authority's cash position during the year.

### Financial Overview

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and supplemental information.

The Authority's activity is maintained in two funds, the Member General Fund and the Stop-loss Fund. The basic financial statements, which follow this section, provide both long-term and short-term information about the Authority's financial status. These basic financial statements report information about the Authority using the accrual method of accounting, in accordance with accounting principles generally accepted in the United States of America. The three basic financial statements presented are as follows:

- **Statement of Net Assets** - This statement presents information reflecting the Authority's assets, liabilities, and fund net assets.
- **Statement of Revenue, Expenses, and Changes in Net Assets** - This statement reflects the operating and nonoperating revenue and expenses for the previous two fiscal years. Operating revenue consists of member contributions, with the major sources of operating expenses being claims and claims adjustment expenses, general and administrative expenses, and reinsurance costs. Nonoperating revenue consists primarily of investment income.
- **Statement of Cash Flows** - The statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the fiscal year.



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# Michigan Community College Risk Management Authority

## Management's Discussion and Analysis (Continued)

### Condensed Financial Information

The financial statements report the Authority's net assets and how they have changed. Net assets (the difference between the Authority's assets and liabilities) is one way to measure the Authority's financial health, or position. Over time, increases or decreases in the Authority's fund net assets are an indicator of whether its financial health is improving or deteriorating, respectively. Summarized financial information is as follows:

| Net Assets<br>(in thousands) | June 30         |                 | Changes in Fund<br>Net Assets<br>(in thousands) | Year Ended June 30 |              |
|------------------------------|-----------------|-----------------|---|--------------------|--------------|
|                              | 2005            | 2004            |   | 2005               | 2004         |
| Total assets                 | \$ 9,621        | \$ 8,711        | Total revenue                                   | \$ 3,816           | \$ 3,658     |
| Total liabilities            | 7,682           | 6,884           | Total expenses                                  | 3,704              | 3,648        |
| Net assets                   | <u>\$ 1,939</u> | <u>\$ 1,827</u> | Increase in net assets                          | <u>\$ 112</u>      | <u>\$ 10</u> |

In addition to fund net assets, when assessing the overall health of the Authority, the reader needs to consider other nonfinancial factors such as the legal climate in the state, the general state of the financial markets, and the level of risk prevention undertaken by the Authority and its members.

The Authority cannot control the first two factors. However, since its inception, the Authority has been a leader in implementing aggressive risk prevention programs. Outside consultants work with members in developing and implementing training in many areas specific to community colleges.

### Condensed Comparative Financial Highlights

- Overall, members' funds on deposit increased by \$571,000 (9.5 percent) from \$5,994,000 to \$6,565,000.
- The Stop-loss Fund increased by approximately \$112,000 (6.1 percent) from \$1,827,000 to \$1,939,000.
- Total stop-loss and claims servicing revenues increased by \$245,000 (7.0 percent) from \$3,507,000 to \$3,752,000.
- Stop-loss claim payments, net of reinsurance and stop-loss fund recoveries, decreased by \$168,000 from \$521,000 to \$353,000.
- Outside reinsurance increased by \$241,000 from \$2,652,000 to \$2,893,000.

# Michigan Community College Risk Management Authority

## Management's Discussion and Analysis (Continued)

- Investment income of \$308,000 was earned this year as compared to \$680,000 in the prior year, which was a decrease of \$372,000. Of the \$308,000 earned this year, \$244,000 and \$64,000 was credited to members' funds on deposit and the Stop-loss Fund, respectively.

### Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments comprise the most significant numbers in the asset section of the Authority's balance sheet.

Accordingly, the Authority uses investment and other consultants to manage their stock and bond portfolios. The consultants must adhere to investment guidelines established by the Authority's board of directors. Investment results are reviewed by the board of directors on a quarterly basis.

### Reserves

The Authority, as an entity, carries no risk and therefore has no reserves. The Authority receives an annual letter from an actuary confirming that no reserves are required.

### Budgetary Highlights

The budget for the year ended June 30, 2005 was approved by the board of directors, based on stop-loss and members' funds on deposit activity, at their July 2004 meeting. There were no subsequent changes to that budget.

|   | Budgeted     | Actual       | Variance   |
|---|--------------|--------------|------------|
| Revenue                                 | \$ 4,448,937 | \$ 4,457,836 | \$ 8,899   |
| Expenses:                               |              |              |            |
| Liability reinsurance                   | 1,313,635    | 1,313,635    | -          |
| Property reinsurance                    | 1,491,210    | 1,499,300    | 8,090      |
| Auto physical damage reinsurance        | 11,074       | 11,074       | -          |
| Stop-loss Fund transfer                 | 401,021      | 401,830      | 809        |
| State-mandated fees                     | 37,700       | 46,280       | 8,580      |
| Operating expenses                      | 481,224      | 480,316      | (908)      |
| Total expenses                          | 3,735,864    | 3,752,435    | 16,571     |
| Total available for members' loss funds | \$ 713,073   | \$ 705,401   | \$ (7,672) |

# **Michigan Community College Risk Management Authority**

## **Management's Discussion and Analysis (Continued)**

### **Capital Assets**

The Authority contracts out all of its operational and treasury functions and, consequently, does not own any capital assets.

### **Economic Factors**

- The Authority's revenue base increased by 8.0 percent as a result of an increase in existing members' revenue.
- Reinsurance costs and member exposures are expected to increase moderately for the 2006 fiscal year.

All these factors were considered in preparing member contribution projections for the 2006 fiscal year.

### **Contacting the Authority's Management**

This financial report is designed to provide our members, customers, and the general public with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the Authority's office at 14001 Merriman Road, Livonia, Michigan 48154. The telephone number is (734) 513-0300.

# Michigan Community College Risk Management Authority

## Statement of Net Assets

June 30, 2005

(with comparative amounts at June 30, 2004)

|                                       | Member              |                     | Totals              |                     |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                       | General             | Stop-loss           | June 30             |                     |
|                                       | Fund                | Fund                | 2005                | 2004                |
| <b>Assets</b>                         |                     |                     |                     |                     |
| Cash and cash equivalents (Note 3)    | \$ 1,323,492        | \$ -                | \$ 1,323,492        | \$ 1,301,249        |
| Investments (Note 3)                  | 6,283,034           | 1,939,539           | 8,222,573           | 7,336,752           |
| Accrued interest receivable           | 74,943              | -                   | 74,943              | 65,917              |
| Receivables from reinsurers           | -                   | -                   | -                   | 7,078               |
| Members' loss contribution receivable | 157                 | -                   | 157                 | 253                 |
| Total assets                          | <u>\$ 7,681,626</u> | <u>\$ 1,939,539</u> | <u>\$ 9,621,165</u> | <u>\$ 8,711,249</u> |
| <b>Liabilities and Net Assets</b>     |                     |                     |                     |                     |
| <b>Liabilities</b>                    |                     |                     |                     |                     |
| Reinsurance premiums payable          | \$ 8,090            | \$ -                | \$ 8,090            | \$ 77,069           |
| Pending trades                        | 13,200              | -                   | 13,200              | -                   |
| Advance contributions received        | 1,095,762           | -                   | 1,095,762           | 813,185             |
| Members' funds on deposit (Note 4)    | 6,564,574           | -                   | 6,564,574           | 5,993,606           |
| Total liabilities                     | 7,681,626           | -                   | 7,681,626           | 6,883,860           |
| <b>Net Assets</b>                     | <u>-</u>            | <u>1,939,539</u>    | <u>1,939,539</u>    | <u>1,827,389</u>    |
| Total liabilities and net assets      | <u>\$ 7,681,626</u> | <u>\$ 1,939,539</u> | <u>\$ 9,621,165</u> | <u>\$ 8,711,249</u> |



# Michigan Community College Risk Management Authority

## Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

(with comparative amounts for year ended June 30, 2004)

|   | Member<br>General<br>Fund | Stop-loss<br>Fund | Totals<br>Year Ended June 30 |              |
|---|---------------------------|-------------------|------------------------------|--------------|
|   |                           |                   | 2005                         | 2004         |
| <b>Member Contributions</b>   | \$ 3,350,605              | \$ 401,830        | \$ 3,752,435                 | \$ 3,506,551 |
| <b>Risk Management, Underwriting, and Other Expenses</b>                        |                           |                   |                              |              |
| Risk management fees  | 213,958                   | -                 | 213,958                      | 211,777      |
| Other professional services   | 76,535                    | -                 | 76,535                       | 76,684       |
| Meeting and other expenses  | 25,846                    | -                 | 25,846                       | 48,090       |
| Total risk management, underwriting,<br>and other expenses                      | 316,339                   | -                 | 316,339                      | 336,551      |
| <b>Net Contributions Available for Claims and Related Expenses</b>              | 3,034,266                 | 401,830           | 3,436,096                    | 3,170,000    |
| <b>Claims and Related Expenses</b>  |                           |                   |                              |              |
| Claims paid - Net of subrogation receipts<br>and reinsurance recoveries         | -                         | 353,358           | 353,358                      | 520,935      |
| Reinsurance expense   | 2,893,374                 | -                 | 2,893,374                    | 2,651,596    |
| Claims service fees   | 140,892                   | -                 | 140,892                      | 139,359      |
| Total claims and related expenses   | 3,034,266                 | 353,358           | 3,387,624                    | 3,311,890    |
| <b>Excess of Revenue Over (Under) Expenses -<br/>    Before investment gain</b> | -                         | 48,472            | 48,472                       | (141,890)    |
| <b>Investment Gain</b>  | -                         | 63,678            | 63,678                       | 151,598      |
| <b>Excess of Revenue Over Expenses</b>  | -                         | 112,150           | 112,150                      | 9,708        |
| <b>Net Assets - Beginning of year</b>   | -                         | 1,827,389         | 1,827,389                    | 1,817,681    |
| <b>Net Assets - End of year</b>   | \$ -                      | \$ 1,939,539      | \$ 1,939,539                 | \$ 1,827,389 |

# Michigan Community College Risk Management Authority

## Statement of Cash Flows Year Ended June 30, 2005

(with comparative amounts for year ended June 30, 2004)

|  | Member              | Stop-loss     | Year Ended June 30  |                     |
|--|---------------------|---------------|---------------------|---------------------|
|  | General Fund        | Fund          | 2005                | 2004                |
| <b>Cash Flows from Operating Activities</b>  |                     |               |                     |                     |
| Cash received from members   | \$ 4,338,679        | \$ 401,830    | \$ 4,740,509        | \$ 4,063,883        |
| Cash payments for claims - Net of recoveries   | (371,222)           | (353,358)     | (724,580)           | (882,505)           |
| Cash payments to suppliers for goods and services  | (3,406,386)         | -             | (3,406,386)         | (3,160,139)         |
| Cash payments to members for distributions   | -                   | -             | -                   | (46,700)            |
| Net cash provided by (used in) operating activities  | 561,071             | 48,472        | 609,543             | (25,461)            |
| <b>Cash Flows from Investing Activities</b>  |                     |               |                     |                     |
| Interest and dividend income   | 282,035             | -             | 282,035             | 268,477             |
| Proceeds from sale of investments  | 899,856             | 227,444       | 1,127,300           | 2,329,097           |
| Purchase of investments  | (1,720,719)         | (275,916)     | (1,996,635)         | (2,811,118)         |
| Net cash used in investing activities  | (538,828)           | (48,472)      | (587,300)           | (213,544)           |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                                    | 22,243              | -             | 22,243              | (239,005)           |
| <b>Cash and Cash Equivalents - Beginning of year</b>   | 1,301,249           | -             | 1,301,249           | 1,540,254           |
| <b>Cash and Cash Equivalents - End of year</b>   | <u>\$ 1,323,492</u> | <u>-</u>      | <u>\$ 1,323,492</u> | <u>\$ 1,301,249</u> |
| <b>Reconciliation of Excess of Revenue Over Expenses to Net Cash from Operating Activities</b> |                     |               |                     |                     |
| Excess of revenue over expenses  | \$ -                | \$ 112,150    | \$ 112,150          | \$ 9,708            |
| Investment income  | (234,843)           | (63,678)      | (298,521)           | (682,113)           |
| Change in assets   | (1,852)             | -             | (1,852)             | (417)               |
| Change in liabilities  | 226,798             | -             | 226,798             | (96,584)            |
| Increase in members' funds on deposit  | 570,968             | -             | 570,968             | 743,945             |
| Net cash provided by (used in) operating activities  | <u>\$ 561,071</u>   | <u>48,472</u> | <u>\$ 609,543</u>   | <u>\$ (25,461)</u>  |

# Michigan Community College Risk Management Authority

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## Notes to Financial Statements June 30, 2005

### Note 1 - Nature of Entity

The Michigan Community College Risk Management Authority (the "Authority") was established in July 1985 pursuant to laws of the State of Michigan, which authorize community colleges to exercise jointly any power, privilege, or authority that each might exercise separately. The purpose of the Authority is to administer a risk management fund that provides the present members with loss protection for general and auto liability, motor vehicle physical damage, and property (see Note 5).

### Note 2 - Significant Accounting Policies

**Basis of Accounting** - The accompanying financial statements have been prepared on the accrual basis of accounting.

**Cash and Cash Equivalents** - Cash equivalents are defined as highly liquid investments purchased with an original maturity of less than three months. The Authority's cash and cash equivalents include bank deposits and money market funds.

**Investments** - Investments in U.S. government securities, corporate bonds, and certificates of deposit with an original maturity at time of purchase of one year or less are stated at amortized cost. All other investments are recorded at fair value, based on quoted market prices or management's estimates.

**Accounts Receivable** - Accounts receivable are stated at invoice amounts. An allowance for doubtful accounts is recognized based on a specific assessment of member balances that remain unpaid. The allowance is determined based on management's estimate of the amounts recoverable from each member. Amounts deemed to be uncollectible are written off in the period that determination is made. No such allowance was deemed necessary at June 30, 2005.

**Statement of Net Assets Classification** - All Authority assets are liquid and no Authority liabilities have maturity dates in excess of one year. Accordingly, no amounts are presented as noncurrent on the Authority's statement of net assets.

**Fund Accounting** - To observe limitations and restrictions placed on the use of resources available, the accounts are maintained in accordance with principles of fund accounting. The following major proprietary funds are maintained and presented in the accompanying financial statements:

# **Michigan Community College Risk Management Authority**

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**Notes to Financial Statements  
June 30, 2005**

## **Note 2 - Significant Accounting Policies (Continued)**

### **Member General Fund**

This fund consists of those economic resources contributed by the members that are expendable for operational items such as risk management, underwriting, reinsurance, and claims service expenses. Members' funds on deposit are available to pay amounts necessary to settle claims incurred and are refundable to members subject to certain limitations and upon approval by the board of directors. Should any member's funds on deposit become insufficient to fund that member's claims, additional contributions would be assessed to that member.

The Authority functions primarily as a claims servicer for members and as a purchasing agent for the acquisition of reinsurance. The Stop-loss Fund provides only a minor amount of risk sharing or pooling of risks among the member colleges (see Stop-loss Fund below). The Authority itself carries no risk; accordingly, no reserve for future claims has been provided in the Member General Fund. The Authority recognizes member contributions as revenue only to the extent of its servicing expenses. All contributions in excess of servicing expenses are allocated to members' funds on deposit.

### **Stop-loss Fund**

The Stop-loss Fund represents earnings accumulated by the Authority for the purpose of funding an internal stop-loss program. Internal stop-loss contributions were initiated in order to reduce the need to purchase reinsurance for aggregate losses paid. Generally, losses exceeding \$15,000 per occurrence or \$45,000 in the aggregate on a year-to-year basis are paid from the Stop-loss Fund. Occurrence and aggregate limits have been established for each member college based on historical loss experience. At any time, if the Stop-loss Fund is insufficient to fund these member losses, the remaining liability shall become the full responsibility of the membership, and the board of directors shall invoice the membership based on each member's contribution to total contributions. The board of directors may declare a dividend to be paid from the Stop-loss Fund in the event that the fund balance is determined to be sufficient to do so.

# Michigan Community College Risk Management Authority

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Notes to Financial Statements  
June 30, 2005

## Note 2 - Significant Accounting Policies (Continued)

**Member Contributions** - Member contributions are recognized as revenue in the year to which they apply. These contributions are determined in accordance with the terms of the joint exercise of powers agreement and are adjusted annually for expenses, loss reserve, and exposure changes of the member and payments made in excess of the member's net contribution account. The board of directors may suspend or reduce member contributions in the event that the members' funds on deposit and fund balance are determined to be sufficient to do so. Members may elect to contribute amounts in excess of the contribution as determined above; such amounts are recognized as an increase to members' funds on deposit when received.

**Members' Funds on Deposit** - A member's proportionate share of funds on deposit is equal to the contributions paid by the member supplemented by investment earnings thereon less operating expenses allocated to the member. Certain expenses (including losses incurred, reinsurance premiums, and manager fees) are allocated according to the actual costs incurred for each member; investment income and other expenses are allocated on a basis determined by the joint exercise of powers agreement.

**Withdrawal from Membership** - Any member may withdraw from the Authority at the end of any fiscal year by giving at least 60 days' notice in writing of his or her desire to withdraw. A member withdrawing from the Authority while having a positive balance in his or her net contribution account may withdraw such funds less projected allocated claims expenses. Any member withdrawing from the Authority having a negative balance in his or her net contribution account shall repay the Authority such negative balance and claims expense incurred. At the request of the withdrawing member, the Authority shall continue to service any pending claim, and the member shall reimburse the Authority for claims expenses incurred. Reinsurance coverage shall not be afforded a withdrawing member for claims not serviced by the Authority.

# Michigan Community College Risk Management Authority

## Notes to Financial Statements June 30, 2005

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; corporate bonds rated investment grade by Moody's Investors Service, Inc. (or Standard & Poor's Corporation); certificates of deposits of institutions which are members of the FDIC; bankers' acceptances of United States banks with rates no less than the two highest ratings which mature not more than 180 days after the date of purchase; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; equity investments that consist of common stock traded on the New York Stock Exchange, American Stock Exchange, Principal Regional Exchanges, or Over-the-Counter Securities Market (NASDAQ); and mutual funds if the stated objectives of the fund are consistent with the investment objectives set forth above.

The Authority's investments are registered in the Authority's name. The Authority has designated one bank for the deposit of its funds.

The overall asset mix of the fund, measured by market value, shall be as follows:

|              | <u>Maximum</u> | <u>Minimum</u> | <u>Target</u> |
|--------------|----------------|----------------|---------------|
| Equities     | 55%            | 45%            | 50%           |
| Fixed income | 55%            | 45%            | 50%           |

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below.

# Michigan Community College Risk Management Authority

## Notes to Financial Statements June 30, 2005

### Note 3 - Deposits and Investments (Continued)

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Authority's deposits for custodial credit risk. At year end, the deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$1,254,778. Of that amount, \$100,000 was covered by federal depository insurance and \$1,154,778 was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity, and bank acceptances, which can only be purchased with a 180-day maturity. The Authority's policy minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and by investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

At June 30, 2005, the Authority had the following investments:

| Investment Type<br>(Comerica Defined)     | Market Value            |       |
|---|-------------------------|-------|
|   | (Excluding<br>Accruals) | Years |
| U.S. government agencies and asset backed | \$ 397,749              | 4     |
| Corporate                                 | 4,469,251               | 5     |
| Foreign corporate                         | 71,039                  | 18    |
| Bank pooled funds                         | <u>3,284,534</u>        | N/A   |
| Total fair value                          | <u>\$ 8,222,573</u>     |       |
| Portfolio Weighted Avg Maturity           |                         | 4     |

# Michigan Community College Risk Management Authority

## Notes to Financial Statements June 30, 2005

### Note 3 - Deposits and Investments (Continued)

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has an investment policy that prohibits the following investments: short sales, put and call options strategies, margin purchase, commodities (futures), securities of the investment manager or its parent corporation including proprietary funds, direct investment in tangible assets such as real estate, oil and gas, precious metals, private placements, and venture capital financing.

At June 30, 2005, the credit quality ratings of debt securities, without regard to investment type, are as follows:

| <u>Rating</u> | <u>Fair Value</u>   |
|---------------|---------------------|
| AAA           | \$ 1,044,176        |
| AA            | 11,895              |
| A             | 2,818,811           |
| BAA           | 604,106             |
| BBB           | 277,497             |
| BB            | 168,316             |
| NR            | 13,238              |
| N/A           | <u>3,284,534</u>    |
| Total         | <u>\$ 8,222,573</u> |

At June 30, 2004, the Authority's investments, at fair market value, consisted of the following:

|                                 | <u>Cash and Cash<br/>Equivalents</u> | <u>Investments</u>  |
|---------------------------------|--------------------------------------|---------------------|
| Demand deposits                 | \$ 1,113,956                         | \$ -                |
| Smith Barney money market funds | 187,293                              | -                   |
| Equity securities               | -                                    | 3,617,756           |
| Corporate bonds                 | -                                    | <u>3,718,996</u>    |
| Total                           | <u>\$ 1,301,249</u>                  | <u>\$ 7,336,752</u> |



# Michigan Community College Risk Management Authority

## Notes to Financial Statements June 30, 2005

### Note 4 - Change in Members' Funds on Deposit

During the year ended June 30, 2005, the members' funds on deposit account reflected the following activity:

|   |                     |
|---|---------------------|
| Members' funds on deposit - July 1, 2004                          | \$ 5,993,606        |
| Total member contributions  | 4,457,836           |
| Investment gain   | 243,867             |
| Transfers to Stop-loss Fund                                       | (401,830)           |
| Claims paid - Net of subrogation and reinsurance recoveries       | (378,300)           |
| Treaty reinsurance purchased for members                          | (2,893,374)         |
| Risk management, underwriting, claims service, and other expenses | (457,231)           |
| Distributions to members  | <u>-</u>            |
| Members' funds on deposit - June 30, 2005                         | <u>\$ 6,564,574</u> |

### Note 5 - Reinsurance

The Authority has entered into specific reinsurance agreements providing for loss coverage in excess of the amounts to be retained by the members. Each member is liable for the portion reinsured to the extent that any reinsurer does not meet the obligations for claims assumed under the reinsurance agreements. To minimize the members' exposure to significant losses from reinsurer insolvencies, the Authority evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers.

# Michigan Community College Risk Management Authority

## Notes to Financial Statements June 30, 2005

### Note 5 - Reinsurance (Continued)

Reinsurance coverage is provided to members as follows for the 2004-2005 insurance periods:

| Line of Coverage            | Member<br>Deductible | Authority's<br>Specific<br>Retention | Coverage<br>Limit         |
|-----------------------------|----------------------|--------------------------------------|---------------------------|
| Property                    | \$ 1,000             | \$ 100,000                           | To the limits<br>required |
| Automobile physical damage: |                      |                                      |                           |
| Per vehicle                 | 500                  | 10,000                               | \$ 300,000                |
| Per occurrence              | N/A                  | 10,000                               | 650,000                   |
| Liability and other         | -                    | 100,000                              | 15,000,000                |

The Authority has paid claims net of reinsurance recoveries and subrogation receipts for the year ended June 30, 2005 as follows:

|  |                   |
|--|-------------------|
| Claims paid                              | \$ 816,009        |
| Reinsurance recoveries                   | <u>(84,351)</u>   |
| Net claims paid                          | 731,658           |
| Paid by Stop-loss Fund                   | <u>(353,358)</u>  |
| Claims paid by members' funds on deposit | <u>\$ 378,300</u> |

In addition, the Authority purchases insurance for certain risks not covered by the reinsurance agreements.

### Note 6 - Federal Income Taxes

The Authority is a self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. This law allows community colleges to provide joint funding for risk management and self-insurance purposes. In the opinion of management and legal counsel, the Authority is a governmental agency and, as such, no provision for federal income taxes is required.

## **Other Supplemental Information**

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# Michigan Community College Risk Management Authority

## Schedule of Changes in Members' Funds on Deposit - By Member Year Ended June 30, 2005

| Member                | Members' Funds on Deposit July 1, 2004 | Total Member Contributions | Transfer to Stop-loss Fund | Management, Underwriting, Reinsurance, Claims Service Fees, and Other Expenses | Net Claims Paid | Total Contributions Over (Under) Expenses | Investment Gain | Contributions and Other Income Over (Under) Expenses | Members' Funds on Deposit June 30, 2005 |
|-----------------------|--|----------------------------|----------------------------|--|-----------------|---|-----------------|--|---|
|                       |  |                            |                            |  |                 |   |                 |  |   |
| Alpena                | \$ 172,931                             | \$ 112,755                 | \$ (10,141)                | \$ (83,764)  | \$ (5,625)      | \$ 13,225                                 | \$ 6,647        | \$ 19,872  | \$ 192,803                              |
| Bay de Noc            | 176,377                                | 113,929                    | (10,230)                   | (88,853)   | (3,497)         | 11,349                                    | 6,128           | 17,477   | 193,854                                 |
| Delta                 | 106,094                                | 332,505                    | (29,946)                   | (239,154)  | (15,069)        | 48,336                                    | 7,814           | 56,150   | 162,244                                 |
| Glen Oaks             | 193,032                                | 79,326                     | (7,121)                    | (56,450)   | (14,461)        | 1,294                                     | 7,269           | 8,563  | 201,595                                 |
| Henry Ford            | 291,883                                | 293,421                    | (26,611)                   | (233,202)  | (22,581)        | 11,027                                    | 12,668          | 23,695   | 315,578                                 |
| Kalamazoo             | 306,082                                | 282,694                    | (25,590)                   | (205,460)  | (21,852)        | 29,792                                    | 13,765          | 43,557   | 349,639                                 |
| Lake Michigan         | 140,600                                | 197,794                    | (17,863)                   | (153,793)  | (30,813)        | (4,675)                                   | 6,016           | 1,341  | 141,941                                 |
| Macomb                | 785,610                                | 579,751                    | (52,268)                   | (452,040)  | (45,000)        | 30,443                                    | 32,487          | 62,930   | 848,540                                 |
| Mid-Michigan          | 399,492                                | 99,846                     | (8,968)                    | (77,714)   | (2,875)         | 10,289                                    | 13,770          | 24,059   | 423,551                                 |
| Monroe                | 315,814                                | 115,382                    | (10,389)                   | (86,125)   | -               | 18,868                                    | 11,968          | 30,836   | 346,650                                 |
| Montcalm              | 242,722                                | 86,173                     | (7,770)                    | (58,549)   | (4,658)         | 15,196                                    | 9,154           | 24,350   | 267,072                                 |
| Muskegon              | (5,527)                                | 139,061                    | (12,514)                   | (107,307)  | (1,239)         | 18,001                                    | 1,216           | 19,217   | 13,690                                  |
| North Central         | 222,526                                | 86,865                     | (7,842)                    | (62,527)   | (561)           | 15,935                                    | 8,749           | 24,684   | 247,210                                 |
| Northwestern Michigan | 196,624                                | 275,443                    | (24,813)                   | (197,600)  | (52,678)        | 352                                       | 7,693           | 8,045  | 204,669                                 |
| Oakland               | 415,094                                | 631,935                    | (56,922)                   | (485,974)  | (44,500)        | 44,539                                    | 20,380          | 64,919   | 480,013                                 |
| Schoolcraft           | 247,675                                | 239,106                    | (21,455)                   | (171,300)  | (16,920)        | 29,431                                    | 8,631           | 38,062   | 285,737                                 |
| Southwestern Michigan | 257,409                                | 119,478                    | (10,716)                   | (86,391)   | (34,889)        | (12,518)                                  | 9,475           | (3,043)  | 254,366                                 |
| St. Clair             | 269,507                                | 148,311                    | (13,374)                   | (111,381)  | (7,765)         | 15,791                                    | 10,535          | 26,326   | 295,833                                 |
| Wayne County          | 950,907                                | 434,024                    | (39,239)                   | (327,638)  | (45,000)        | 22,147                                    | 42,705          | 64,852   | 1,015,759                               |
| West Shore            | 308,754                                | 90,037                     | (8,058)                    | (65,383)   | (8,317)         | 8,279                                     | 6,797           | 15,076   | 323,830                                 |
| Total                 | \$ 5,993,606                           | \$ 4,457,836               | \$ (401,830)               | \$ (3,350,605)   | \$ (378,300)    | \$ 327,101                                | \$ 243,867      | \$ 570,968   | \$ 6,564,574                            |

**SECTION III**

**SUPPORTING FINANCIAL DATA**

MICHIGAN COMMUNITY COLLEGE RISK MANAGEMENT AUTHORITY

STATEMENT OF INVESTMENTS

AS OF JUNE 30, 2005

|                           | Rating<br>Purch. Date | Curr. Rate | Yield | Purchased | Date<br>Maturity | Coupon<br>Rate | Par Value | Cost<br>Including<br>Premium<br>(Discount) | FMV        |
|---------------------------|-----------------------|------------|-------|-----------|------------------|----------------|-----------|--|------------|
| Lehman Bros Holdings      | A                     | A          | 7.15  | 11/02/00  | 02/05/06         | 6.625          | 300,000   | 293,175                                    | \$ 304,572 |
| Signet Bank               | A                     | A          | 7.15  | 11/02/00  | 09/15/06         | 7.800          | 300,000   | 308,859                                    | 313,074    |
| Ford Motor Credit         | A                     | BAA        | 5.80  | 06/14/01  | 02/01/06         | 6.875          | 300,000   | 312,748                                    | 302,997    |
| Sears Roebuck Accept.     | A                     | BB         | 5.98  | 09/28/01  | 06/15/07         | 7.000          | 150,000   | 160,295                                    | 154,141    |
| Hertz                     | A                     | BAA        | 6.20  | 09/28/01  | 08/15/07         | 7.000          | 296,000   | 319,195                                    | 301,109    |
| Household Finance         | A                     | A          | 5.48  | 12/12/01  | 07/15/06         | 7.200          | 100,000   | 106,894                                    | 103,084    |
| Mercantile Bancorp        | A                     | A          | 5.55  | 11/26/01  | 06/15/07         | 7.300          | 300,000   | 324,752                                    | 317,502    |
| Household Finance         | A                     | A          | 5.61  | 09/18/02  | 01/30/07         | 5.750          | 200,000   | 201,074                                    | 205,140    |
| CIT Group Holdings        | A                     | A          | 5.00  | 09/18/02  | 04/02/07         | 7.375          | 200,000   | 218,877                                    | 210,710    |
| Merrill Lynch             | A                     | A          | 3.80  | 01/07/03  | 02/01/07         | 5.360          | 300,000   | 324,676                                    | 307,125    |
| General Electric          | AAA                   | AAA        | 3.60  | 01/07/03  | 12/10/07         | 6.500          | 300,000   | 340,497                                    | 316,167    |
| J.P. Morgan               | A                     | A          | 4.15  | 08/27/03  | 08/15/08         | 6.750          | 300,000   | 335,543                                    | 321,900    |
| GTE North, Inc.           | A                     | A          | 4.00  | 11/13/03  | 11/15/08         | 5.650          | 200,000   | 214,084                                    | 206,190    |
| E.I. Dupont DeNemours     | AA                    | AA         | 4.04  | 05/06/04  | 04/30/10         | 4.125          | 200,000   | 200,886                                    | 200,120    |
| Cons Edison Co.           | AAA                   | AAA        | 4.25  | 05/06/04  | 05/01/10         | 8.125          | 102,000   | 122,640                                    | 119,430    |
| Fed Home Loan Agency      | AAA                   | AAA        | 3.99  | 11/02/04  | 11/02/09         | 3.96           | 300,000   | 300,375                                    | 297,843    |
| CIT Group                 | A                     | A          | 4.125 | 02/03/05  | 11/03/09         | 4.125          | 100,000   | 100,000                                    | 98,878     |
| Federal Farma Credit Bank | AAA                   | AAA        | 4.35  | 02/03/05  | 01/21/10         | 4.35           | 100,000   | 100,000                                    | 99,906     |

MICHIGAN COMMUNITY COLLEGE RISK MANAGEMENT AUTHORITY

STATEMENT OF INVESTMENTS

AS OF JUNE 30, 2005

|                        | <u>Rating</u> | <u>Purch.</u> | <u>Curr.</u> | <u>Yield</u> | <u>Purchased</u> | <u>Date</u>     | <u>Coupon</u> | <u>Par Value</u> | <u>Cost</u>       | <u>FMV</u>  |
|------------------------|---------------|---------------|--------------|--------------|------------------|-----------------|---------------|------------------|-------------------|-------------|
|                        | <u>Date</u>   | <u>Rate</u>   |              |              |                  | <u>Maturity</u> | <u>Rate</u>   |                  | <u>Including</u>  |             |
|                        |               |               |              |              |                  |                 |               |                  | <u>Premium</u>    |             |
|                        |               |               |              |              |                  |                 |               |                  | <u>(Discount)</u> |             |
| SBC Communications     | A             | A             |              | 4.125        | 02/03/05         | 09/15/09        | 4.125         | 300,000          | 300,000           | 297,513     |
| Salomon Smith Barney   |               |               |              |              |                  |                 |               |                  |                   | \$4,477,401 |
| common stock portfolio |               |               |              |              |                  |                 |               |                  |                   | 3,745,172   |
|                        |               |               |              |              |                  |                 |               |                  |                   | \$8,222,573 |
|                        |               |               |              |              |                  |                 |               |                  |                   | =====       |

MICHIGAN COMMUNITY COLLEGE RISK MANAGEMENT AUTHORITY

REINSURANCE RECEIVABLE ANALYSIS

AS OF JUNE 30, 2005

| <u>Treaty<br/>Year</u> | <u>Total<br/>Billed</u>        | <u>Received<br/>as of<br/>June 30, 2005</u> | <u>Receivable<br/>as of<br/>June 30, 2005</u> |
|------------------------|--------------------------------|---|---|
| 1986 - 1992            | \$ 2,185,374                   | \$ 2,185,374                                | \$ -  |
| 1993                   | 1,310,239                      | 1,310,239                                   | -   |
| 1994                   | 509,804                        | 509,804                                     | -   |
| 1995                   | 133,964                        | 133,964                                     | -   |
| 1996                   | 133,885                        | 133,885                                     | -   |
| 1997                   | 60,338                         | 60,338                                      | -   |
| 1998                   | 3,431,918                      | 3,431,918                                   | -   |
| 1999                   | 575,388                        | 575,388                                     | -   |
| 2000                   | 1,013,285                      | 1,013,285                                   | -   |
| 2001                   | -                              | -   | -   |
| 2002                   | 320                            | 320   | -   |
| 2003                   | -                              | -   | -   |
| 2004                   | 57,353                         | 57,353                                      | -   |
| 2005                   | 84,351                         | 84,351                                      | -   |
| Total                  | -----<br>\$ 9,496,219<br>===== | -----<br>\$ 9,496,219<br>=====              | -----<br>\$ -<br>=====                        |



**SECTION IV**

**STATISTICAL DATA**

MICHIGAN COMMUNITY COLLEGE RISK MANAGEMENT AUTHORITY  
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND FUND BALANCE

MEMBER GENERAL FUND

FOR THE TEN YEARS ENDED JUNE 30, 2005

|                                 | 1996        | 1997         | 1998        | 1999        | 2000        |
|---------------------------------|-------------|--------------|-------------|-------------|-------------|
| REVENUES:                       |             |              |             |             |             |
| Member contribution             | \$2,903,277 | \$2,830,947  | \$2,424,399 | \$2,462,860 | \$2,591,692 |
| Investment income               | 401,868     | 410,980      | 504,096     | 325,034     | 513,155     |
| Total revenues                  | \$3,305,145 | \$3,241,927  | \$2,928,495 | \$2,787,894 | \$3,104,847 |
| EXPENSES:                       |             |              |             |             |             |
| Claims and legal expenses paid  | \$ 384,396  | \$ 350,760   | \$ 746,787  | \$ 800,137  | \$ 541,951  |
| Reinsurance and other expenses  | 2,169,379   | 2,153,575    | 1,621,230   | 1,787,621   | 1,896,060   |
| Total expenses                  | \$2,553,775 | \$2,504,335  | \$2,368,017 | \$2,587,758 | \$2,438,011 |
| REVENUES OVER EXPENSES          | \$ 751,370  | \$ 737,592   | \$ 560,478  | \$ 200,136  | \$ 666,836  |
| FUND BALANCE, beginning of year | 4,690,502   | 5,441,872    | 6,178,464   | 6,448,217   | 6,548,732   |
| DISTRIBUTION TO MEMBER          | -           | (1,000)      | (290,725)   | (99,621)    | (33,974)    |
| FUND BALANCE, end of year       | \$5,441,872 | \$6,178,464  | \$6,448,217 | \$6,548,732 | \$7,181,594 |
| REVENUES:                       |             |              |             |             |             |
| Member contributions            | \$2,684,980 | \$3,185,242  | \$3,796,326 | \$4,127,093 | \$4,457,836 |
| Investment income (loss)        | (105,734)   | (278,909)    | 319,688     | 680,242     | 307,545     |
| Total revenues                  | \$2,579,246 | \$2,906,333  | \$4,116,014 | \$4,807,335 | \$4,765,381 |
| EXPENSES:                       |             |              |             |             |             |
| Claims and legal expenses paid  | \$ 574,951  | \$ 690,872   | \$ 375,829  | \$ 879,476  | \$ 731,658  |
| Reinsurance and other expenses  | 1,939,310   | 2,577,095    | 3,229,731   | 3,127,506   | 3,350,605   |
| Total expenses                  | \$2,514,261 | \$3,267,967  | \$3,605,560 | \$4,006,982 | \$4,082,263 |
| REVENUES OVER EXPENSES          | \$ 64,985   | \$ (361,634) | \$ 510,454  | \$ 800,353  | \$ 683,118  |
| FUND BALANCE, beginning of year | 7,181,594   | 7,179,582    | 6,569,771   | 7,067,342   | 7,820,995   |
| DISTRIBUTION TO MEMBER          | (66,997)    | (248,177)    | (12,883)    | (46,700)    | -           |
| FUND BALANCE, end of year       | \$7,179,582 | \$6,569,771  | \$7,067,342 | \$7,820,995 | \$8,504,113 |

MICHIGAN COMMUNITY COLLEGE RISK MANAGEMENT AUTHORITY

MEMBER GROWTH ANALYSIS

FOR THE TEN YEAR PERIOD ENDED JUNE 30, 2005

|                                      | <u>1996</u> | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Total number of members              | 19          | 19          | 19          | 19          | 19          |
| Contributions by year                | \$2,903,277 | \$2,830,947 | \$2,424,399 | \$2,462,860 | \$2,591,691 |
| Cumulative number of reported claims | 1,061       | 1,171       | 1,285       | 1,381       | 1,478       |

|                                      | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Total number of members              | 19          | 19          | 20          | 20          | 20          |
| Contributions by year                | \$2,684,980 | \$3,185,242 | \$3,796,326 | \$4,218,551 | \$4,457,836 |
| Cumulative number of reported claims | 1,566       | 1,679       | 1,785       | 1,898       | 2,036       |

Note: All claims are paid by either the member, through its deductible or by outside reinsurers. The MCCRMA assumes no risk on any claims.

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY

SCOPE OF COVERAGES

The major categories of insurance protection MCCRMA provides its members are listed as follows:

**Property**

- Buildings
- Contents
- Fine arts
- Inland marine
- Electronic data processing equipment
- Boilers and machinery

**General Liability**

- Comprehensive general liability
- Public officials liability
- Armed guard liability
- Contractual liability

**Automobile Liability**

- Bodily injury
- Property damage
- Personal injury
- Michigan nofault

**Crime**

- Broad form money and securities
- Employee fidelity
- Depositors forgery
- Public official bonds

**Auto Physical Damage**

**LIABILITY REINSURANCE PORTFOLIO: April 1, 2004 - March 31, 2005**

| <b>Reinsurer</b>                     | <b>Net Premiums<br/>Written (\$000)</b> | <b>Policyholders'<br/>Surplus (\$000)</b> | <b>A.M. Best<br/>Rating</b> |
|--------------------------------------|---|---|-----------------------------|
| Partner Reins Company of the U.S.    | \$877,442                               | \$586,543                                 | A+                          |
| PMA Capital Insurance Company        | (173,407)                               | 224,511                                   | B+                          |
| Liberty Mutual Insurance Co.         | 6,698,479                               | 7,255,350                                 | A                           |
| ACE Property & Casualty Ins. Co.     | 1,312,682                               | 797,714                                   | A                           |
| GE Reinsurance Corporation           | 486,192                                 | 689,117                                   | A                           |
| St. Paul Fire & Marine Insurance Co. | 4,481,115                               | 5,508,658                                 | A+                          |
| Platinum Underwriters Reins., Inc.   | 715,432                                 | 403,121                                   | A                           |
| Government Entities Mutual, Inc.     | 6,893                                   | 9,844                                     | NR-1                        |

**LIABILITY REINSURANCE PORTFOLIO: April 1, 2005 - March 31, 2006**

| <b>Reinsurer</b>                   | <b>Net Premiums<br/>Written (\$000)</b> | <b>Policyholders'<br/>Surplus (\$000)</b> | <b>A.M. Best<br/>Rating</b> |
|------------------------------------|---|---|-----------------------------|
| ACE Property & Casualty Ins. Co.   | \$1,312,682                             | \$797,714                                 | A                           |
| Partner Reins. Company of the U.S. | 877,442                                 | 586,543                                   | A+                          |
| Liberty Mutual Insurance Co.       | 6,698,479                               | 7,255,350                                 | A                           |
| Government Entities Mutual, Inc.   | 6,893                                   | 9,844                                     | NR-1                        |
| GE Reinsurance Corporation         | 486,192                                 | 689,117                                   | A                           |

**PROPERTY REINSURANCE PORTFOLIO: July 1, 2004 - June 30, 2005**

| <b>Reinsurer</b>                  | <b>Net Premiums<br/>Written (\$000)</b> | <b>Policyholders'<br/>Surplus (\$000)</b> | <b>A.M. Best<br/>Rating</b> |
|-----------------------------------|---|---|-----------------------------|
| ACE Bermuda Insurance Ltd.        | 684,467                                 | 1,864,318                                 | A+                          |
| Underwriters at Lloyd             | Not available                           | Not available                             | Not available               |
| The Travelers Indemnity Co.       | 3,106,197                               | 4,639,342                                 | A+                          |
| Government Entities Mutual, Inc.. | 6,893                                   | 9,844                                     | NR-1                        |

**2005 COVERAGE OVERVIEW**  
**LIABILITY COVERAGE**

**Layer 1**      **\$925,000 xs SIR.** Retained 100% by MMRMA

**Layer 2**      **\$4,000,000 xs \$1,000,000.** Beginning April 1, 2005, this layer is subject to an aggregate deductible for losses otherwise recoverable of \$4,000,000.

April 1, 2004 - March 31, 2005

|                       |            |
|-----------------------|------------|
| GE Reinsurance Corp.  | 30%        |
| ACE Prop. & Cas. Co.  | 25%        |
| Govt. Entities Mutual | 15%        |
| MMRMA                 | 15%        |
| Partner Reins. Co.    | <u>15%</u> |
|                       | 100%       |

April 1, 2005 - March 31, 2006

|                            |            |
|----------------------------|------------|
| GE Reinsurance Corp.       | 50%        |
| ACE Prop. & Cas. Co.       | 30%        |
| Partner Reins. Co. of U.S. | <u>20%</u> |
|                            | 100%       |

**Layer 3**      **\$5,000,000 xs \$5,000,000.**

April 1, 2004 - March 31, 2005

|                      |            |
|----------------------|------------|
| GE Reinsurance Corp. | 50%        |
| ACE Prop. & Cas. Co. | 25%        |
| Liberty Mutual       | 15%        |
| Partner Reins. Co.   | <u>10%</u> |
|                      | 100%       |

April 1, 2005 - March 31, 2006

|                       |           |
|-----------------------|-----------|
| GE Reinsurance Corp.  | 50%       |
| Govt. Entities Mutual | 20%       |
| Liberty Mutual        | 15%       |
| Partner Reins. Co.    | 10%       |
| ACE Prop. & Cas. Co.  | <u>5%</u> |
|                       | 100%      |

**Layer 4**      **\$5,000,000 xs \$10,000,000**

April 1, 2004 - March 31, 2005

|                       |            |
|-----------------------|------------|
| GE Reinsurance Corp.  | 40%        |
| Platinum Underwriters | 40%        |
| Liberty Mutual        | <u>20%</u> |
|                       | 100%       |

April 1, 2005 - March 31, 2006

|                         |            |
|-------------------------|------------|
| GE Reinsurance Corp.    | 40%        |
| ACE Prop. & Cas. Co.    | 30%        |
| Liberty Mutual Ins. Co. | 20%        |
| Govt. Entities Mutual   | <u>10%</u> |
|                         | 100%       |

**PROPERTY COVERAGE**

**Layer 1**      **90% of first \$100,000. Retained 100% by MMRMA**

**Layer 2**      **\$4,000,000 xs \$1,00,000. Retained 100% by MMRMA.**

**Layer 3**      **\$10,000,000 xs \$500,000**

|             |            |
|-------------|------------|
| ACE Limited | 45%        |
| Travelers   | 45%        |
| GEM         | <u>10%</u> |
|             | 100%       |

**Layer 4**      **\$65,000,000 xs \$10,000,000**

|             |            |
|-------------|------------|
| ACE Limited | 50%        |
| Travelers   | <u>50%</u> |
|             | 100%       |

**Layer 5**      **\$125,000,000 xs \$75,000,000**

|        |      |
|--------|------|
| Lloyds | 100% |
|--------|------|

**Terrorism**      **\$25,000,000 per occurrence**

|           |      |
|-----------|------|
| Travelers | 100% |
|-----------|------|

**AUTO PHYSICAL DAMAGE COVERAGE**

**\$1,485,000 xs 15,000; Retained 100% by MMRMA**

**SECTION V**

**GLOSSARY**



MICHIGAN COMMUNITY COLLEGE RISK MANAGEMENT AUTHORITY

GLOSSARY

**Accident Period** - Period that includes the date of occurrence of loss, regardless of the report and payment dates.

**ALAE (Allocated Loss Adjustment Expenses)** - Attorneys' fees, investigative fees, etc., associated with individual claims.

**CAFR** - Comprehensive annual financial report.

**Case Reserve** - A claim administrator's estimate of the future payments on a known case.

**Case Reserve Development** - Changes in reserve amounts on known cases as more information becomes available over time.

**Development Triangles** - Information on number of claims or amounts of losses organized into triangular form for determination of development factors.

**Discount Factor** - Factor to decrease the amount of money required at some future date so that the discounted current amount plus accrued interest will equal the required amount at the future date.

**Ultimate Losses** - An estimate of the total dollar amount, including ALAE, that will be paid on a particular set of claims.

**GAAP** - Generally accepted accounting principles.

**GASB** - Governmental Accounting Standards Board.

**Incurred Losses** - Sum of paid losses and case reserves, including ALAE.

**ULAE (Unallocated Loss Adjustment Expense)** - Cost of handling claims not directly attributable to individual claims.

**IBNR (Incurred But Not Reported)** - Losses that have not been reported, arising out of claims that have occurred. This includes both losses for claims that have not been reported and case reserve development of reported claims.